United States Postal Service

PRC Ten-Year Review – Cost Efficiency Study

Prepared by Alvarez & Marsal
with the Institute for Supply Management

March 20, 2017

Table of Contents

Executive Summary

The Postal Accountability and Enhancement Act of 2006 (PAEA), expanded the role of the Postal Regulatory Commission (PRC), conferring it with additional regulatory and oversight responsibilities for the U.S. Postal Service (USPS). The PAEA also imposed a limitation on market dominant product rate increases tied to the Urban Consumer Price Index (CPI-U) for 10 years and gave the PRC discretion over rate systems thereafter. December 2016 marked the 10-year anniversary of the PAEA, and per statutory requirements, the PRC is required to review the system for regulating rates of USPS market dominant products. The PRC may modify the system to ensure USPS can achieve and maintain financial stability.

Alvarez & Marsal (A&M) and the Institute for Supply Management (ISM) (together, the "Team") were engaged through a competitive bid process to conduct an independent assessment to determine if operational efficiencies could be made to improve USPS's financial situation within its current legislative and regulatory constraints. As part of the assessment, the Team also worked to determine if the current pricing structure adequately allows USPS to close its projected net cash shortfall within the next 10 years (FY17 through FY26).

USPS operates in a uniquely constrained environment, with legislative and regulatory requirements limiting rates and product types, defining service standards for delivery windows, and requiring universal service to all addresses regardless of cost. USPS's employee compensation and benefits are largely stipulated by legal requirements and collective bargaining agreements with the multiple unions representing its workforce. Due to USPS's position as an independent establishment within the executive branch of the government of the United States, operational improvements designed to improve its financial performance often have political ramifications. Thus, financially motivated business decisions and USPS's ability to reduce costs are limited based on its provision as a national service that also provides international and military mail service. Cumulatively, these constraints have contributed to USPS's worsening financial condition over the last 10 years. Overall volume has decreased by 28 percent from FY06 to FY16 and the revenue mix has been significantly unfavorable to USPS. USPS's forecasts project unfavorable trends will continue, putting further financial pressure on USPS in a challenging environment of declining volume and profit margin.

USPS has made significant efforts over the last 10 years to reduce costs, including Network Rationalization (a plan to reduce its mail processing facility footprint to match reduced and changing mail volume), revising service standards, and more closely aligning staffing with demand. In total, over the last 10 years, USPS has reduced total staffing levels by 20 percent while partnering with its unions to increase its share of non-career employees to reduce growth in payroll costs. Despite successes in managing costs, PAEA-mandated payments to the Postal Service Retiree Health Benefit Fund (PSRHBF), increases in costs for retiree benefits, workers' compensation, and transportation have contributed to USPS's worsening financial condition.[1]

In addition to declining net income (loss) performance, USPS's net capital position at the end of 2016 was also unfavorable compared to the end of 2006. USPS ended FY06 with a net surplus of $6.3 billion and FY16 with a net deficiency of $56.0 billion.[2] **In summary, from both an operating and net capital standpoint, USPS is currently in an unfavorable position relative to December 2006 when the PAEA went into effect; USPS forecasts that its net cash position will deteriorate over the next 10 years.**

The Team's review of USPS's operations included a review of transportation, processing facilities, networks, retail, and collection & delivery[3] through a combination of field observations and data analysis

---

[1] See Introduction and Background section for more details.
[2] Major contributors to the change include the introduction of accrued retiree health benefits and an increase in worker's compensation liability. See Introduction and Background section for more details.
[3] The review excluded additional revenue opportunities and other cost reductions outlined in the Recommended Cost Savings Initiatives section.

over a sixteen week period.[4] 16 site visits were conducted; visits included network/processing and retail facilities as well as direct observations and related discussions with site-level management. These visits allowed the Team to develop a better understanding of operational constraints and identify efficiency opportunities.[5] In addition, the Team interviewed over 20 members of USPS's leadership team, including all members of the Executive Leadership Team (ELT). Furthermore, over 40 managers and points of contact for specific initiatives were interviewed to develop a comprehensive understanding of key stakeholders and the context for each of the recommendations outlined in this report.

The Team reviewed hundreds of public and internal documents and analyzed USPS enterprise-wide data sets in order to develop a deep understanding of USPS operations and expenditures, and to investigate and quantify opportunities for savings. The Team's information review comprised historical and current staffing, workhours, and payroll data at the facility level. This information included detailed line-item expenditures, financially-relevant supplier contract information, and facility / route layouts. USPS collects, analyzes, and reports a significant amount of operational and financial data across its operations. USPS uses its financial and operational data to develop analyses to drive recommendations for cost efficiency changes and in support of decision-making. In conducting our work, we reviewed data as applicable and appropriate. Data availability was not a limiting factor in completing our analyses, yet navigating the available data, given its magnitude was challenging.

The Team's operational assessment concluded that USPS would benefit from implementing the 11 recommendations outlined in Figure 1 below. These recommendations — all of which were initially estimated to produce $100 million, or more, per year of cost savings opportunities — include [redacted]

# Operating Category / Initiative Name	Description
1) Transportation / Logistics	
a) [redacted]	
[redacted]	
[redacted]) Processing Facilities	
a) [redacted]	
[redacted]	
[redacted]) Network	
a) [redacted]	[redacted]
[redacted]) Retail	
a) [redacted]	
[redacted]	
[redacted]) Collection & Delivery	
a) [redacted]	
[redacted]	

Figure 1: Recommended Initiatives

Each initiative was categorized by type and constraint. A summary of the recommendations is shown below in Figure 2; cost savings are broken down by initiative type (continue existing initiative vs. modify / accelerate / expand existing initiative vs. new initiative) and constraint category (under management control vs. requires labor partnership vs. requires regulatory review/change). The initiative type and initiative constraint categories are defined below.

[4] In FY15, per USPS's line item expenditure file, USPS spent $75.9 billion across all operations, including $6.6 billion in transportation and logistics, $12.1 billion on processing and distribution, $6.8 billion on retail and customer service, and $23.7 billion on collection & delivery. In addition to these operational categories, USPS recorded $11 billion in long term benefit (workers' comp and healthcare) expenditures and an additional $15.6 billion in administration and other costs across all operations.

[5] See Operational Assessment Approach section for details of the Team's site visit-related observations.

Initiative Type

- *Existing initiatives that should continue*: These initiatives have previously been identified by USPS management and are underway and the Team recommends these initiatives continue.

- *Existing initiatives that should be accelerated, expanded, or modified*: Similar to the previous initiative type, however these initiatives should be modified to increase delivery speed or expand scope to enhance savings realization.

- *New initiatives*: These initiatives were identified by the Team, but are not currently being pursued by USPS management.

Initiative Constraint

- *Under management control*: These initiatives are not constrained by any external factors and implementation timing, sequence, concentration, and scope are under control of USPS management.

- *Requires labor partnership*: Collective bargaining agreements would need to be changed to achieve these cost efficiencies.

- *Requires regulatory review/change*: The regulations covering USPS would need to be vetted by the PRC to achieve these cost efficiencies.

Average annual savings: $ in millions	Under mgmt control			Requires labor partnership			Requires regulatory review			Total
# **Operating Category** / Initiative	Existing Continue	Existing Modify	New Initiative	Existing Continue	Existing Modify	New Initiative	Existing Continue	Existing Modify	New Initiative	
1) Transportation / Logistics	[redacted]									
a) [redacted]										
[redacted]										
2) Processing Facilities										
a) [redacted]										
[redacted]										
3) Network										
a) [redacted]										
4) Retail										
a) [redacted]										
[redacted]										
5) Collection & Delivery										
a) [redacted]										
[redacted]										
Grand Total: all initiatives	[redacted]	[redacted]		[redacted]			-	[redacted]	-	2,590

Figure 2: Cost Savings by Type and Constraint

Of the approximately $2.6 billion[6] average annual savings that USPS could achieve, about 40 percent, or $1.0 billion, is under management control. The Team identified initiatives that it thinks USPS should continue or expand / accelerate, but no new initiatives per the definitions outlined above.

Over 10 years, the estimated savings opportunity under management control would be approximately $10.5 billion. Of this amount, approximately $3.9 billion is expected to occur in the first

[6] This table/estimate accounts for overlap between related initiatives. See Recommended Cost Savings Initiatives section for the independent estimates that do not account for overlap as well as the process to calculate the impact of the overlap to produce the summary table above.

five years of the ten-year period (FY17 through FY21). USPS is expected to realize the remaining $6.5 billion in the second half of the ten-year period (FY22 through FY26).[7]

USPS's internal forecasts reflect an expectation that it will realize a substantial portion of the identified cost savings opportunities under management control. After considering the realized savings, USPS expects it will have a net cash shortfall at the end of FY26 of $70.4 billion. In addition, if USPS were able to achieve the savings opportunities outlined above requiring labor partnership and regulatory review/change,[8] it would save an additional $15.4 billion, and close 22 percent of the expected net cash shortfall over the next 10 years.

In summary, if USPS could realize all the cost savings opportunities under its control as well as those requiring labor partnership and/or regulatory review/changes, USPS would have an estimated $55.0 billion cash shortfall at the end of the period FY17-FY26.

USPS has implemented many operational improvements since 2006, and management has demonstrated open-mindedness to recommendations throughout the course of this review. Based on USPS's proactive efforts in prior and ongoing efficiency initiatives, the Team anticipates that USPS management will continue to make progress and implement the recommended initiatives and other improvement opportunities[9] outlined within this report within its control.

Even if USPS successfully implements all the recommendations, under the current constraints and pricing structure, there is no path forward for USPS to close its net cash shortfall by the end of FY26, let alone achieve financial stability of reduced debt levels and increased levels of operating cash on hand. **Operational improvements alone are not sufficient to allow USPS to close its net cash shortfall position within the next 10 years. To improve its financial condition and reach fiscal sustainability, USPS will need to adapt successfully to the changing revenue mix and improve cost control through strong partnerships with employee unions, regulators, and the legislature.**

The resolution of how to fill the remaining net cash shortfall over this 10-year period is outside the scope of this report, but it is the Team's assessment that a change to the current CPI-U price cap and/or significant regulatory/legislative changes will be required to close USPS's net cash shortfall over the next 10 years.

[7] Due to rounding, numbers presented throughout this report may not add to the total.
[8] Achieving the savings outside of management control also would likely have some offsetting costs and thus not be "free." Estimating this offset is outside the scope of the Team's report.
[9] As noted, while the "Other Opportunities" — defined as not meeting the $100 million threshold or could not be accurately quantified given the constraints of data availability and time — can direct USPS toward additional cost savings opportunities, the savings possible through these opportunities will not materially alter USPS's financial outcomes in the next ten years.

Introduction and Background

The United States Postal Service (USPS) has played a critical role in the U.S. economy since before the country was established and its financial solvency continues to be vital to U.S. and international commerce. Originally established as a taxpayer supported department of the United States government, known as The United States Post Office Department, USPS became an independent, self-supporting entity with the passage of the Postal Reorganization Act (PRA) of 1970.

The PRA established USPS as an “independent establishment of the executive branch of the Government of the United States” with the mandate to offer a “fundamental service” to the nation “at fair and reasonable rates.” USPS has not received an appropriation for operational costs since 1982 and relies solely on the sale of postage, products and services to fund its operations.

The Postal Accountability and Enhancement Act of 2006 (PAEA), made revisions to the PRA and expanded the role of the Postal Regulatory Commission (PRC), conferring it with additional regulatory and oversight responsibilities. PAEA also imposed a limitation on market dominant product rate increases tied to the Urban Consumer Price Index (CPI-U) for 10 years and gave the PRC discretion over rate systems thereafter. In addition, the PAEA obligated USPS to fully fund (on an accelerated time frame from 2006 through 2016) the health benefits of retirees and current USPS employees who have not yet retired. This has had a significantly unfavorable impact on USPS’s financial performance over the last 10 years.

December 2016 marked the 10-year anniversary of the PAEA, and per statutory requirements, the PRC is required to review the system for regulating rates of USPS market dominant products. This review seeks to determine if the system is achieving nine objectives established by PAEA while taking into account 14 factors (considering the pricing, market relevance, public perception, etc.), as specified in 39 U.S. Code § 3622. If the PRC determines the system is not meeting objectives, by regulation it may modify or replace the system for regulating rates. The PRC may modify the system to ensure USPS can achieve and maintain financial stability.

Since the PAEA was signed, USPS:

- Lost an average of over $6 billion per year between 2007 and 2016.
- Had a net capital deficit of $56 billion at the end of 2016 (compared to a surplus at the end of 2006).
- Reached its borrowing capacity limit of $15 billion in 2012, and has stayed at or near this limit since.

Alvarez & Marsal and the Institute for Supply Management (together, “the Team”) were engaged to perform an independent assessment to determine the extent to which operational modifications could be made to improve USPS’s financial situation within its current legislative and regulatory constraints, and determine if current pricing structure is adequate to allow USPS to close its net cash shortfall over the next 10 years (by the end of FY26), or achieve financial stability, including reduced debt levels and increased levels of operating cash on hand.

Products and Services Provided

USPS services are sold by approximately 32,000 post offices, stations and branches, plus a large network of Contract Postal Units, Community post offices, Village post offices, commercial outlets which sell stamps and services on USPS’s behalf and through its website. Mail deliveries are made to approximately 156 million city, rural, P.O. Box, and highway delivery points in the United States.[10]

[10] Per USPS’s 2016 10-K

USPS has approximately 640,000 employees, including 509,000 career employees and approximately 131,000 non-career employees, substantially all of whom reside in the U.S. Approximately 91 percent of the career employees are covered by collective bargaining agreements.

USPS summarizes its products and services into the following broad categories:

- **First-Class Mail** – Letters, postcards, or any flat advertisement or merchandise destined for either domestic (up to 13 ounces) or international (up to 4 pounds) delivery. In FY16, this category made up **38 percent of USPS's operating revenue**.

- **USPS Marketing Mail** – Any item, including advertisements and marketing packages, weighing less than 16 ounces that is not required to be sent using First-Class Mail. In FY16, this category made up **25 percent of USPS's operating revenue**.

- **Shipping and Packages** – Includes Package Services (including First-Class Package Service), Parcels (Parcel Select, Parcel Return Service, First-Class, and Standard Mail Parcel Services), Priority Mail, and Priority Mail Express. In FY16, this category made up **24 percent of USPS's operating revenue**.

- **International** – Includes Priority Mail Express International, Priority Mail International, and Global Express Guaranteed. In FY16, this category made up **4 percent of USPS's operating revenue**.

- **Periodicals** – Offered for newspaper, magazine and newsletter distribution. In FY16, this category made up **2 percent of USPS's operating revenue**.

- **Other Services** – Includes P.O. Box services, Money Orders, Certified Mail, Registered Mail, Signature Confirmation, and Adult Signature. In FY16, this category made up **5 percent of USPS's operating revenue**.[11]

Constraints and Limitations

Despite USPS's self-funding mandate, its status as an independent establishment within the executive branch of the government of the United States subjects it to constraints which limit its control over product offerings and pricing structures, and place strict service standards.

Price increases for USPS's market-dominant products are generally subject to a price cap based on the CPI-U. USPS's market-dominant products include, but are not limited to First-Class Mail, Standard Mail, Periodicals and certain parcel services; these products account for 74 percent of USPS's annual operating revenues.

For these market-dominant products, beginning in 2007, the PAEA required USPS to publish Service Standards, which were officially defined as "a stated goal for service achievement for each mail class." A Service Standard represents the level of service that the USPS strives to provide to customers. These standards are considered to be one of the primary operational goals, or benchmarks against which service performance is compared in various measurement systems.

USPS publishes rates for each of the following mail classes: First-Class Mail, Standard Mail, Periodicals, and Package Services. For each mail class, USPS sets service standard for each combination of originating and destinating 3-digit ZIP Code combinations. For example, 901 (Los Angeles) had the following service standards for the first quarter of FY16:[12]

[11] Percentages do not add up to 100 percent as a result of rounding, here and in some other instances in this report.
[12] USPS Service Standards Map, accessed November 2016: https://ribbs.usps.gov/modernservicestandards/ssmaps/find_map.cfm

- First-Class Mail:
  - 2 days for mail to go from the originating 901 3-digit ZIP to most of Southern California and Southern Nevada
  - 3 days . . . to most of the Continental U.S. and Puerto Rico
  - 4 days . . . to most of Alaska and Hawaii
  - 5 days . . . to Guam

- USPS Marketing Mail:
  - 5-6 days for mail to go from the originating 901 3-digit ZIP to most of Southern California and Southern Nevada
  - 7-9 days . . . to most of the Continental U.S.
  - 15 days . . . to Puerto Rico
  - 14-16 days . . . to most of Alaska, Hawaii, and Guam

- Periodicals:
  - 3 days for mail to go from the originating 901 3-digit ZIP to most of Southern California and Southern Nevada
  - 4-7 days . . . to most of the Continental U.S.
  - 13 days . . . to Puerto Rico
  - 13-16 days . . . to most of Alaska and Hawaii
  - 14 days . . . to Guam

- Package Services:
  - 3 days for mail to go from the originating 901 3-digit ZIP to most of Southern California and Southern Nevada
  - 5-7 days . . . to most of the Continental U.S.
  - 14 days . . . to Puerto Rico
  - 13-14 days . . . to most of Alaska, Hawaii, and Guam

USPS is required to report on performance against these standards. USPS is also mandated to meet the universal service obligation (USO). While not explicitly defined, USPS's USO is broadly outlined in multiple statutes and encompasses multiple dimensions. In general, it is a collection of requirements that ensures everyone in the country receives a minimum level of mail service at a reasonable price. Other features of the USO are understood to include frequency of delivery, a range of product offerings, access to mail services, and quality of service. For instance, delivering mail six days a week is part of the USO. While other carriers might offer delivery on a universal basis, USPS is the only carrier obligated to provide all aspects of universal service at affordable prices.[13] It is not always cost-effective for USPS to meet the requirements of the USO while maintaining service standards.

In addition to legal and regulatory requirements, USPS faces constraints to implementing cost savings related to its collective bargaining agreements covering approximately 91 percent of the USPS career workforce. USPS has successfully negotiated additional workforce flexibility in recent union negotiations[14], but collective bargaining agreements inherently impose restrictions on management. Like other large organizations with a heavily-unionized workforce, USPS faces labor constraints that can impede the impact of, and speed with which it can implement savings opportunities.

Moreover, if USPS is unable to negotiate to an agreement with its labor partners, both sides are subject to binding arbitration. There is no current statutory mandate requiring an interest arbitrator to consider

[13] USPS Universal Service Obligation Executive Summary https://about.usps.com/universal-postal-service/usps-uso-executive-summary.txt and USPS Office of Inspector General's USO-related blog https://www.uspsoig.gov/blog/postal-service-and-its-obligation

[14] Including, per discussions with USPS management, more than one-quarter of the bargaining unit workforce is not guaranteed full-time work and almost one-third of the bargaining unit employees do not have layoff protection. However, restrictions still exist that limit management's ability to adapt most efficiently to dynamic market conditions.

USPS's financial health in issuing an award. [15]Accordingly, an unfavorable binding award could put USPS in an untenable financial position of having its costs grow structurally faster than its revenue. While more than 60 percent of USPS's operating expenditures are compensation and benefits (C&B)-related[16], not all these C&B costs are managed through the collective bargaining process.[17]

USPS also faces statutory, regulatory, and political restrictions that inhibit it from growing its business, pricing its products, and constraining its expenses. One example of operating constraints is legislation that requires USPS to maintain a six-day delivery schedule. Separately, political considerations make it extremely challenging to close post offices, even if they are unprofitable.

In addition, USPS participates in U.S. government pension and health and benefits programs for employees and retirees, including the Federal Employee Health Benefit (FEHB) system, the Civil Service Retirement System (CSRS) and the Federal Employee Retirement system (FERS) as required by law.[18] USPS has no control or influence over the benefits offered by these plans and is required to make contributions as specified by law or contractual agreement with the unions.

The PAEA obligated USPS to fully fund (on an accelerated time frame from 2006 through 2016) the health benefits of current retirees and current USPS employees who have not yet retired. This accelerated pre-funding requirement has had a significantly unfavorable impact on USPS's financial performance over the last 10 years. Additionally, as a government employer, USPS is required by PRA to continue contributing to the FERS and CSRS pension programs at rates specified by the Office of Personnel Management (OPM).

USPS is legally mandated to participate in the federal workers' compensation program. USPS employees injured on the job are covered by the Federal Employees' Compensation Act (FECA), administered by the Department of Labor's (DOL) Office of Worker's Compensation Programs (OWCP). USPS reimburses DOL for all workers' compensation benefits paid to or on behalf of its employees, plus an administrative fee. Additionally, under FECA, workers' compensation claims cannot be settled through lump-sum payments. In many instances, the prohibition of lump-sum payments requires compensation to be paid in perpetuity. Federal law grants Cost Of Living Adjustments (COLA) to long-term claims, driving growing, incontrollable expenses over time.

USPS's only access to financing is through the Federal Financing Bank (FFB) at a statutory-constrained $15 billion debt limit which USPS has been at or near since 2012. USPS has no management control over this ceiling or additional sources of capital, such as the public markets.[19]

USPS competitors are not subject to the same statutory, regulatory, and political restrictions. In addition, USPS competitors have access to public capital markets, which allows them greater freedom in their investments and expansion of their business.

Financial Condition

Over the last 10 years, as a result of the Great Recession and migration of hard copy mail, USPS has experienced a very significant reduction in volume, with total volume decreasing by 28 percent from FY06 to FY16. First-Class Mail has dropped by 37 billion pieces, or 38 percent, and Standard Mail has decreased by 22 billion pieces, or 21 percent. In this same period, USPS' package volume has increased

[15] Per USPS's 2016 10-K. Previous GAO reports (e.g. 16-268) have also included similar language. This does not mean that arbitrators are precluded from doing so, if they so choose.

[16] Per USPS's 2016 10-K.

[17] For example, the PRA mandates that all fringe benefits be at least as favorable as when the law was passed in 1970. USPS has no control through collective bargaining over these legislatively-mandated benefit costs.

[18] In addition to the 509,000 career employees, USPS has approximately 490,000 annuitants and survivors participating in FEHB as of September 30, 2016, per USPS's 2016 10-K.

[19] Per USPS's 2016 10-K

more than five-fold.[20] This shift from letters to packages has led to a reduction in USPS' contribution margin percentage as the margin in competitive products such as packages is far lower than the margin on letters and flats.[21]

In addition, the number of delivery points continues to increase, rising by approximately one million points each year from 146 million in 2006, to 156 million delivery points in 2016.[22] There has been a reduction in mail density of approximately 32 percent since 2007 – from 5.5 pieces per delivery point per day to 3.7 pieces.[23] The ability to meet USO requirements and deliver mail to each point six days per week has made cost containment a challenge for USPS.

USPS has made significant efforts over the last 10 years to reduce costs through:

- Increase in flexible workforce reduced rate of overall wage growth with minimal impact on individual employees
- Implementation of two-tier wage schedules and modified COLA provisions provide lasting salary relief
- The implementation of Network Rationalization — a plan to reduce its mail processing facility footprint to match reduced and changing mail volume.
- Revision of Service Standards.
- Better alignment of staffing with demand such as Post Office Structure Plan's (POStPlan), which focused on reducing retail hours at lower-volume retail locations.

All collective bargaining agreements negotiated starting in FY11 included a two-year wage freeze followed by modest wage increases in the out years. As a result of the workforce structure changes and wage packages negotiated in the 2010/2011 round of collective bargaining, the average hourly wage and benefits cost for bargaining unit employees declined by 4.5 percent between FY11 and FY16.[24]

Since the PAEA was passed, USPS has increased its workforce flexibility, achieving a more favorable composition. Specifically, as noted above, USPS has increased the share of its workforce comprised by lower-cost non-career employees. In addition, it has partnered with its unions to implement new, lower pay schedules for career employees appointed under the terms of the new contracts.

In addition in recent years, USPS has partnered with its unions to add non-career employees to complement its career employees, notably increasing the percent of non-career employees relative to career ones from 14 percent in 2009 to 26 percent in 2016. In addition, USPS has offered early retirement incentive plans. With respect to Network Rationalization, in May 2012, USPS announced a modified, phased plan to continue the consolidation of its network of mail processing locations, and in 2013 consolidated 97 mail processing facilities in Phase I and accordingly reduced mail processing work by more than six million hours.[25]

In January 2015, USPS revised its service standards for First-Class Mail and began Phase II of mail processing realignments. Phase II resulted in consolidation activities affecting 36 mail processing

[20] Per USPS 2006 Annual Report and 2016 10-K.
[21] Per the USPS 2016 10-K, USPS must earn approximately $2.50 in Shipping and Packages revenue to replace the contribution lost from each $1 of First-Class Mail revenue because the costs of transporting and delivering packages are significantly higher than letters.
[22] Per approximations provided in the USPS 2016 10-K and 2006 Annual Report.
[23] Per USPS's 2016 10-K
[24] From an hourly rate of $42.18 in FY11 to that of $40.28 in FY16. Source: National Payroll Hours Summary Reports, Total Bargaining, Line 43. During the same period, private sector ECI for total compensation increased by 10.6 percent, per the Bureau of Labor Statistics.
[25] Per USPS's 2013 10-K

facilities, of which 21 were partially consolidated and 15 were completely consolidated during 2015. In order to further assess operational considerations and to ensure that it continued to provide prompt, reliable, and predictable service consistent with its published service standards, USPS deferred further consolidations until 2016.[26]

To contain costs and complement the Network Rationalization, Service Standard revisions, and favorable staffing/mix level changes, USPS proposed POStPlan's implementation prior to a 2014 POStPlan arbitration decision. POStPlan's implementation was expected to enable millions in cost savings through the reduction of retail hours. Prior to the arbitration decision, POStPlan's implementation reduced hours at about 13,000 post offices. Additionally, by offering separation incentives or reassignments, USPS was able to replace many career postmasters with non-career or part-time employees. The arbitrator ruled that offices be staffed by bargaining-unit employees, such as clerks, rather than the generally less costly employees USPS had planned to utilize. As a result, USPS's POStPlan related cost savings estimates were reduced.

In total, over the last 10 years, USPS has reduced total staffing levels by 20 percent, and work hours by 21 percent. As also noted above, USPS has increased its share of non-career employees. While cost inflation factors have mitigated staffing and workhour decreases, compensation and benefits have still been materially reduced by nine percent or about $4.7 billion from 2006 to 2016.[27]

Over this same 10-year period, USPS has seen a two percent reduction in revenue, or about $1.3 billion less in 2016 relative to 2006. This is mostly due to the fact that First-Class and Standard Mail revenue has decreased more significantly than the increase in Package revenue.

Overall, given the decreasing demand for high margin products and increasing costs as well as labor, regulatory, and legislative constraints, it is not surprising that USPS's financial performance in 2016 was unfavorable compared to 2006. Specifically, USPS's net income in 2006 was approximately $0.9 billion, compared to 2016 where its net loss was $5.6 billion.

Figure 3 below illustrates the main drivers of the net income reduction from 2006 through 2016. Despite decreasing compensation and benefits (C&B) costs by $4.7 billion (substantially more than the revenue decrease of $1.3 billion during this period and largely achieved via headcount reduction and increased flexibility coming from recent collective bargaining agreements), the increases in non-C&B costs – most of which, including PAEA payments to the Postal Service Retiree Health Benefit Fund (PSRHBF), are outside of USPS's control – have more than offset this C&B reduction. This has driven a worsening of USPS's financial performance over the last 10 years.

[26] Per USPS's 2015 10-K.
[27] USPS has reduced work hours from FY06 to FY16 by approximately 301 million. At the current national consolidated salary and benefits level of $41.56 per hour, this workhours reduction equates to a savings of $12.5 billion in current dollars. While USPS has increased its utilization of a flexible workforce as well as negotiated a two-tier wage schedule to reduce the rate of overall wage growth, natural cost inflation has driven up the average nominal wage rates over this ten-year period. This average wage rate increase and increasing benefits costs have mitigated the compensation and benefits reduction over this timeframe to $4.7 billion.

In $ billions

2006 Net Income	**0.9**
Lower revenue	(1.3)
Reduction in compensation and benefits	4.7
Increased transportation costs	(0.9)
PAEA payments to PSRHBF	(5.8)
Increased retiree benefits	(1.7)
Increased workers comp costs	(1.4)
Other changes	(0.1)
Total Net Income Change, 2006 to 2016	**(6.5)**
2016 Net Income (Loss)	**(5.6)**

Figure 3: Ten Year Net Income Change Bridge

The financial performance trend is not unique to 2016. USPS's financial results between 2007 and the present have been consistent with FY16 losses. Figure 4 below illustrates the main drivers of the net income reduction:

In $ billions

2006 Net Income	**0.9**
Lower revenue	(3.7)
Reduction in compensation and benefits	4.3
Increased transportation costs	(0.5)
PAEA payments to PSRHBF	(5.2)
Increased retiree benefits	(1.2)
Increased workers comp costs	(1.1)
Other changes	0.0
Total NI Change, 2006 to Avg 2007- 2016	**(7.2)**
Average 2007-2016 Net Income (Loss)	**(6.3)**

Figure 4: Average Annual Ten Year Net Income Bridge

USPS's net capital position at the end of 2016 was also unfavorable to its position at the end of 2006. At the end of 2006, USPS had a net surplus of $6.3 billion. By the end of 2016, USPS had a net capital deficit of $56.0 billion, for an unfavorable change over 10 years of $62.3 billion.

Figure 5 below summarizes the main drivers of this unfavorable change. More than half, or almost $34 billion, resulted from the PAEA requirement to fully prefund the PSRHBF with the employer's portion of the established health benefits of USPS's retirees and current employees.[28]

[28] USPS has not made these payments for the years 2011 through 2016, per the 2016 USPS 10-K.

In $ billions	
2006 Net Surplus (Deficiency)	**6.3**
Reduction in total assets	(3.3)
Introduction of accrued retiree health benefits	(33.9)
Increase in workers' compensation liability	(13.2)
Increase in debt	(12.9)
Other changes	1.0
Total Net Capital Change, 2006 to 2016	**(62.3)**
2016 Net Surplus (Deficiency)	**(56.0)**

Figure 5: Net Deficiency

At the end of FY16, USPS's cash balance was $8 billion. Throughout 2016, USPS's average daily cash position was $8.2 billion, representing approximately 30 days of operating cash.[29]

As a result of USPS's inability to generate substantial net cash from operations, its statutory-constrained $15 billion debt limit through the Federal Financing Bank, and having no access to additional sources of capital, USPS management has had to conserve cash. Cash conservation efforts have included reducing capital expenditures by 35 percent during the period 2012 through 2016 compared to 2009 through 2011.[30] As a result of capital constraints, USPS's inventory of vehicles and equipment has not received adequate investment. USPS's delivery fleet includes approximately 145,000 vehicles that are at least 20 years old and need additional maintenance to continue. Similarly, USPS has letter sorting equipment that is at or near the end of its useful life.[31]

In summary, on both an operating basis as well as a net capital position, at the end of 2016, USPS is in an unfavorable fiscal position relative to when the PAEA was signed in December 2006.

USPS forecasts continued net income losses over the next 10 years and associated deterioration of its net cash position. Increases in package volume by an average of five to six percent per year[32] are expected to outpace the reduction of market-dominant products by an average of one to two percent per year.[33] However, since the market dominant products make up a significantly larger portion of the revenue base currently, the overall revenue growth is expected to average zero to one percent per year over the next 10 years.

Operating costs are expected to increase by about twice the rate of revenue, or one to two percent per year. Higher operating costs are driven by salaries increasing at this rate as well as transportation costs, which are expected to increase by about two to three percent per year.

Salary and benefit increases are not being driven by a rise in workhours, as the number of workhours is expected to move in-line with the modest reductions in the weighted volume profile over this period. The

[29] Represents an approximately $6 billion improvement from 2012 lows. The improvement is a combination of the USPS defaulting on its annual PSRHBF prefunding payments in 2012 onwards and a temporary exigent surcharge of approximately $4.6 billion realized from January 2014 through April 2016.
[30] Per USPS's 2016 10-K
[31] Per USPS's 2016 10-K
[32] Package volume growth is expected to be higher in the first few years, and then slow in later years in a more mature market with strong competition.
[33] On an unweighted basis, volume is expected to decrease by about three percent per year over the next 10 years.

increase in salary and benefits is driven by slightly higher-than-revenue growth rates in wages as well as two to three percent per year increases in health benefits. In addition, operating expenses are increasing over the 10-year period partially due to an expected increase in transportation costs of two to three percent per year.

Overall, USPS projects net losses of $2 billion to $3 billion per year in the first few years of the FY17-FY26 period and are gradually expected to increase to $9 billion to $11 billion per year at the end. By the end of FY26, USPS projects a net cash shortfall of $70.4 billion, further increasing USPS's net deficiency.[34]

In light of the scale of this projected deficit as well as the expedited timeline to perform a comprehensive operational assessment, the Team focused its analyses on opportunities that had the potential to generate at least $100 million per year of cost efficiencies.

[34] In 2017, the PSRHBF will begin funding USPS's share of retiree health benefit premiums, and USPS will begin paying the normal costs of retiree health benefits (i.e., the present value of the estimated retiree health benefits attributable to active employees' current year of service), which USPS estimates at approximately $2.9 billion in 2017. USPS will also make amortization payments on its $52.1 billion unfunded liability (to be amortized over 40 years), estimated to total approximately $2.6 billion per year, based on preliminary valuations provided by OPM under the PAEA mandate. USPS assumes the amortization of missed RHB prefunding payments would results in annual cash flow impact of $1.7 billion and $0.9 billion in unfunded liability expense payments. The accounting treatment for these payments will be based on further consultation with OPM and OMB. By 2026, USPS estimates the RHB normal cost to be $4.3 billion and the amortization payments to remain at $2.6 billion. In addition, USPS's obligations regarding CSRS are expected to change in 2017. OPM will determine the annual payments that USPS will need to make to amortize its $17.5 billion of unfunded CSRS liabilities over a term of 27 years. USPS estimates this payment obligation will be approximately $1.2 billion per year beginning in 2017.

Operational Assessment Approach

The Team's assessment approach was a combination of both field observations and data analysis. Specifically, the Operational Assessment team focused on selecting sites to visit, collecting operational data on those sites in preparation for the visits, conducting the visits, linking observations with supporting data analyses and developing recommendations based on the observations and related data analyses.

Concurrently, the Desk Review team reviewed hundreds of public and internal documents and analyzed USPS enterprise-wide data sets in order to develop a deep understanding of USPS's operations and expenditures and to investigate and quantify opportunities for savings. The Team's information review comprised historical and current staffing, workhour, and payroll data at the facility level. This information included detailed line-item expenditures, financially-relevant supplier contract information, and facility/route layouts.[35]

In addition, the Team reviewed the existing legal and regulatory structures in which USPS works, including key legislation (PRA, PAEA) and USPS's internal policy and operations documentation, including the Postal Operations Manual (POM).

Background

USPS's network of processing, distribution, and retail facilities is among the largest in the world with over 250 network facilities, and more than 30,000 post offices or delivery units. These facilities are the core of USPS's operations, housing more than 600,000 employees and representing over 90 percent of total expenditures. In order to understand USPS operations, environment, and mission, as well as to identify USPS's greatest challenges and opportunities for improvement, the Team undertook an Operational Assessment, which included site visits to each major type of processing facility, and postal delivery units. The Team used this Operational Assessment as the basis for its findings and recommendations presented within this report.

Site Visit Objectives

- Develop an understanding of USPS operations environment.
- Identify efficiency opportunities (identify best practices and successful initiatives).
- Develop an understanding of operational constraints.
- Gather data and insight for Desk Review.
- Validate findings of prior assessments and reports.
- Identify operational POCs to vet findings and analysis.

Site Selection Criteria

- Facility Type – Sampled all major processing facility types, focusing on those that represented the largest portion of operations – Processing and Distribution Centers (P&DC), Network Distribution Centers (NDC), Surface Transportation Centers (STC) and Automated Sorting Facilities (ASF)
- Operational Performance – Utilized USPS performance metrics to target high-performing and low-performing facilities.
- Geographic Location – Selected sites that allowed for a variety of processing facility and delivery unit visits within reasonable proximity.

[35] The Team analyzed USPS's financial performance reporting system (FPR) to understand line-item expenditures at each of USPS's 32,000 plus locations. To further investigate controllable costs, the Team carefully reviewed a broad array of contracts, reports, and data related to the use of third party transportation suppliers. The Team assessed local, OTR, and Air expenditures by reviewing detailed contract terms and related transportation logs for every mode of transportation. In order to support analysis and recommendations for USPS's network consolidation efforts, the Team reviewed USPS's facilities database files and plant-specific machine configurations. In addition to the detailed staffing and payroll data reviewed for each facility and operation, the Team analyzed carrier and collection box routing information to support optimization of collection & delivery unit operations and staffing.

Locations Selected

11 Network/ Processing Facilities

- Merrifield P&DC
- Los Angeles P&DC and Annex
- Los Angeles NDC
- Anaheim P&DC
- Salt Lake City P&DC and Annex
- Carol Stream P&DC
- Chicago Metro Hub (Busse P&DC/STC)
- Forest Park NDC
- Salt Lake City P&DC and STC
- Tulsa P&DC
- Oklahoma City P&DC/ASF

5 Delivery Units

- Salt Lake City Sugar House Post Office
- Greenmead Carrier Annex
- Annandale Post Office
- Elmhurst Post Office
- Schaumburg Post Office

The Operational Assessment focused on USPS core operations and included a variety of delivery units and processing facility variations. Due to the limited scope of this effort, vehicle maintenance facilities and administrative support centers were not included in this review. This section outlines the Team's observations in the field regardless of whether or not individual findings provided justification for formal recommendations or opportunities within this report.

Site Visit Approach
The USPS Operational Assessment team consisted of core members of the Alvarez & Marsal team and senior subject matter experts in operations, manufacturing, and logistics. To support the Operational Assessment, the Team developed a workbook of key facts and figures for each facility, including data on facilities, volume by class, equipment, staffing, expenditures, and overtime.

The assessment plan was developed around sampling processing and distribution facilities in accordance with the criteria identified above. The Team visited post offices in surrounding areas at the recommendation of district and area leadership. Over the course of two and a half weeks, the Team traveled nationwide to visit the eleven processing and distribution facilities, and five delivery units listed above.

<u>Network Facility Site Visits</u>
Site visits were scheduled to observe plants in order to develop an understanding of processing activities at peak times for both originating and destinating mail. In accordance with USPS policy, the Team began each site visit with an entrance meeting with plant and district leadership, as well as operations engineers from the facility. At each plant, the Team learned about operational challenges and successes as well as ongoing process improvement initiatives.

Following the initial entrance meetings, there were discussions with available Operations Industrial Engineers (OIE) teams about past, ongoing, and planned Six Sigma projects. The Team reviewed the day's operating plan at each plant and discussed recent changes to the operating plan with plant leadership. Several hours were spent on the floor of each facility, in both guided and unguided tours. In observing limitations — related to direct contract with union employees — the Team interviewed supervisors and staff, examined each processing system in operation, and developed an understanding of the support roles including building and equipment maintenance.

Throughout the Operational Assessment, identified challenges were documented as well as potential areas for further analysis. The Team coordinated with the Desk Review team members working at headquarters to begin requesting operations data to support the necessary analysis. The Team developed relationships with management POCs in the field that helped in vetting the findings, observations, and recommendations of this report.

Post Office Site Visits

Site visits were scheduled at delivery units of varying size and performance, under the guidance of field POCs, to identify post offices that could be visited nearby network facilities. The Team observed carriers' performing office work and watched the outgoing and incoming operations of mail carriers at many post offices. In addition to observing the sortation, delivery, and collection processes, time was set aside (during peak and low volume time) to observe retail operations, including staffing and utilization of self-service and mobile point of sale.

The Team's site visits to network facilities and post offices helped to inform the analyses and recommendations outlined in the Recommended Cost Savings Initiatives section as well as the additional considerations identified in the Other Improvement Opportunities section. In addition, the Team's Site Visit Observations are identified in the penultimate section of this report.

Recommended Cost Savings Initiatives

For each of the 11 recommendations, the Team analyzed the background and supporting data to estimate the average annual savings opportunity over a 10-year period (FY17 through FY26). Moreover, the Team lists constraints and limitations, where applicable, as well as implementation details. Necessary investments were highlighted for the two recommendations where capital expenditures would be required.

As noted in the Introduction and Background section, the Team's site visits and data analyses provided the background for the 11 recommendations outlined in detail in this section.

The Team categorized each recommendation across two dimensions:

Initiative Type

- *Existing initiatives that should continue*: These initiatives have previously been identified by USPS management and are underway and the Team recommends these initiatives continue.
- *Existing initiatives that should be accelerated, expanded, or modified*: Similar to the previous initiative type, however these initiatives should be modified to increase delivery speed or expand scope to enhance savings realization.
- *New initiatives*: These initiatives were identified by the Team, but are not currently being pursued by USPS management.

Initiative Constraint

- *Under management control*: These initiatives are not constrained by any external factors and implementation timing, sequence, concentration, and scope are under control of USPS management.
- *Requires labor partnership*: Collective bargaining agreements would need to be changed to achieve these cost efficiencies.
- *Requires regulatory review/change*: The regulations covering USPS would need to be vetted by the PRC to achieve these cost efficiencies.

Consistent with the project scope, the Team's review excluded:

- Revenue enhancement opportunities
- Cost savings initiatives previously disallowed by the PRC or Congress
- Cost reduction initiatives that are part of current proposed legislation
- Observations and analysis related to central administrative functions such as Procurement, Information Technology, Finance, HR, Marketing, Legal, and Facilities Management.

Given the nature of the review, the Team broadly assumed that the existing USPS business model would be in place for the next 10 years.

This effort also focused on cost saving opportunities, and did not explicitly include analysis of revenue enhancement opportunities that might be available to USPS, such as providing additional services through the postal network.

The 11 recommendations are each summarized into one of the five major operating categories:

- Transportation/Logistics
- Processing Facilities
- Network
- Retail

- Collection & Delivery

Figure 6 below provides a summary description of each of the recommendations.

# Operating Category / Initiative Name	Description
1) Transportation / Logistics	
a) [redacted]	
[redacted]	
[redacted]) Processing Facilities	
a) [redacted]	
[redacted]	
[redacted]) Network	
a) [redacted]	[redacted]
) Retail	
a) [redacted]	
[redacted]	
[redacted]) Collection & Delivery	
a) [redacted]	
[redacted]	

Figure 6: Summary Description of Recommendations

For each of these initiatives, the Team estimated the inputs that could be reduced if the recommendation were implemented. For the personnel-related savings, the Team identified the crafts that were expected to be impacted as each recommendation progressed to implementation steady state.[36]

To ensure that the Team's cost savings recommendations were consistent with USPS's baseline financial model assumptions (and therefore could be used to determine how much of an impact the initiatives could have on USPS's net cash shortfall position), the Team presented USPS's financial team with the hour reduction estimates (by craft) at steady state for each initiative. The USPS financial team — accounting for expected volume trends, cost inflation, and labor mix shifts — returned an annual savings estimate in dollars for each year during the 10-year period.[37]

The Team followed the same process for the non-personnel related savings [redacted] but instead of identifying the relevant craft, the Team identified the likely budget line item(s) that would be reduced if the recommendation were implemented.

Figure 7 illustrates the outcome of this detailed cost savings estimate process by initiative, assuming all the recommendations could be achieved independently (i.e. there would be no overlapping initiatives).

[36] For example, [redacted]

Auditing USPS's financial projections model was not in the Team's scope, but to confirm the reasonableness of the results, the Team created cursory analyses to confirm that USPS's outputs were generally consistent with its inputs for trends in volume, employment mix, and cost inflation. The Team found the model's outputs to be consistent with expectations given its inputs.

Average annual savings: $ in millions	Under mgmt control			Requires labor partnership			Requires regulatory review			Total
# **Operating Category** / Initiative	Existing Continue	Existing Modify	New Initiative	Existing Continue	Existing Modify	New Initiative	Existing Continue	Existing Modify	New Initiative	
1) Transportation / Logistics	[redacted]									
a) [redacted]										
[redacted]										
2) Processing Facilities										
a) [redacted]										
[redacted]										
[redacted]										
[redacted]										
3) Network										
a) [redacted]										
4) Retail										
a) [redacted]										
[redacted]										
5) Collection & Delivery										
a) [redacted]										
[redacted]										
Grand Total: all initiatives	[redacted]	[redacted]		[redacted]			-	[redacted]	-	2,757

Figure 7: Summary of Cost Savings Estimates

As noted in the Introduction and Background section, the expected financial results from these initiatives need to be reviewed in context of the average annual net loss USPS expects in the years FY17 through FY26 under its current baseline forecast.

In this scenario, if USPS could fully realize all the savings under management's control, it could save about $1.1 billion annually, including [redacted] from initiatives that the Team recommends that USPS accelerate, expand, or modify.

Partnership with labor unions and regulators would be required to achieve an additional $1.6 billion per year, for a total of $2.8 billion in savings.

If USPS were to attempt to execute on all these cost savings opportunities, it would not be able to achieve all of the savings, as not all of the initiatives are mutually-exclusive. For example, [redacted]

The overlapping considerations are different for each category group and the details are summarized in the initiative write-ups later in this section. Figure 8 is a visual representation of how the overlap of the initiatives affects the underlying savings results for each initiative, operating category, and overall.

# Operating Category / Initiative Name	Stage One	Stage Two	Stage Three	Total $ Impact of Overlap
[redacted]				
		Weighted Average Dollar Impact of Combining Initiatives		↓ 6%

Figure 8: Impact of Combining Initiatives

The overall impact of overlapping initiatives is a six percent decline, with the largest impact [redacted][38]

The Team followed the same process as with the "independent" estimates and prepared the revised inputs considering overlap, and received the expected savings inputs for each initiative for each year during the 10-year period.

Figure 9 illustrates the outcome of this detailed by-initiative cost savings estimate process, considering the expected overlaps among initiatives.

[38] The critical consideration is the existence and estimation of overlap. The staging is less important to the results, as the key is to count every hour (or dollar, for non-personnel) of savings opportunity only once.

Average annual savings: $ in millions	Under mgmt control			Requires labor partnership			Requires regulatory review			Total
# **Operating Category** / Initiative	Existing Continue	Existing Modify	New Initiative	Existing Continue	Existing Modify	New Initiative	Existing Continue	Existing Modify	New Initiative	
1) Transportation / Logistics	[redacted]									
a) [redacted]										
[redacted]										
2) Processing Facilities										
a) [redacted]										
[redacted]										
3) Network										
a) [redacted]										
4) Retail										
a) [redacted]										
[redacted]										
5) Collection & Delivery										
a) [redacted]										
[redacted]										
Grand Total: all initiatives	[redacted]	[redacted]		[redacted]			-	[redacted]	-	2,590

Figure 9: Summary of Cost Savings Estimates Considering Expected Overlaps among Initiatives

The results shown in Figure 9 are a function of those from Figure 8 applied to those in Figure 7.

In this scenario, if USPS could fully realize all the savings under management's control, it could save about $1.0 billion annually, including [redacted] from existing initiatives that the Team recommends that USPS modify.

In addition, the Team estimates that in an unconstrained environment, without current regulatory or collective bargaining requirements, USPS could achieve an additional $1.5 billion per year, for a total of $2.6 billion.

The capital expenditure related to support achievement of these initiatives is modest relative to the savings opportunities. Specifically, the Team estimates that [redacted]. No other proposed initiatives require new capital expenditures.

In total, the expected FY18 capital expenditures to support these recommendations are [redacted]

To put the 10-year initiative savings opportunities shown in Figure 9 into the larger context, summary savings by constraint type:

- $10.5 billion relates to initiatives under management control
- $13.8 billion requires labor partnership
- $1.6 billion requires regulatory review
- $55.0 billion net cash shortfall remains after all the initiatives are considered

39 [redacted]

Summary of savings <u>by initiative type</u>:

- [redacted] relates to an existing initiative that the Team believes USPS should continue
- [redacted] relates to an existing initiative that the Team believes USPS should modify, accelerate, or expand
- $55.0 billion net cash shortfall remains after all the initiatives are considered

Summary of savings <u>by operating category</u>:

- [redacted] relates to a transportation / logistics initiative
- [redacted] relates to a processing facilities initiative
- [redacted] relates to a network initiative
- [redacted] relates to a retail initiative
- [redacted] relates to a collection & delivery initiative
- $55.0 billion net cash shortfall remains after all the initiatives are considered

The conclusion is the same: even if USPS could realize all the cost savings opportunities under its control as well as those requiring labor partnership and/or regulatory review/changes, USPS would still have an estimated $55.0 billion remaining net cash shortfall at the end of FY26.

Accordingly, the conclusion of the Team's independent assessment is that although USPS can make further operational improvements to improve its financial condition, operational improvements alone are not sufficient to allow USPS to close its expected net cash shortfall between FY17 and FY26, and achieve financial stability, including reduced debt levels and increased operating cash on hand. In order to remain financially viable over the next 10 years, USPS will need to pursue a new pricing strategy to provide increased revenue and/or seek legislative changes to facilitate its ability to control costs.

Transportation/Logistics

The Team recommends two transportation and logistics initiatives:

[redacted]

[redacted]

[redacted]

[redacted]

- [redacted]
- [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]		
	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

- [redacted]
- [redacted]

[redacted]

- [redacted]
- [redacted]
- [redacted]
- [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

- [redacted]
- [redacted]
- [redacted]

[redacted]

[redacted]

- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]

[redacted]

- [redacted]
- [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

- [redacted]
- [redacted]

[redacted]

- [redacted]
- [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

- [redacted]
- [redacted]

[redacted]

[redacted]

- [redacted]
- [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

- [redacted]
- [redacted]

[redacted]

- [redacted]

[redacted]

- [redacted]
- [redacted]
- [redacted]

[redacted]

- [redacted]
- [redacted]
- [redacted]
- [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

- [redacted]
- [redacted]
- [redacted]

[redacted]

- [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

- [redacted]
- [redacted]
- [redacted]
- [redacted]

[redacted]

- [redacted]
- [redacted]
- [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]	[redacted]	
[redacted]		
[redacted]		

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

- [redacted]
- [redacted]
- [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

- [redacted]

[redacted]

- [redacted]
- [redacted]
- [redacted]
- [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]						
[redacted]	[redacted]	[redacted]			[redacted]	[redacted]
[redacted]						
[redacted]	[redacted]	[redacted]			[redacted]	[redacted]
[redacted]	[redacted]	[redacted]		[redacted]	[redacted]	[redacted]

[redacted]

[redacted]

[redacted]

- [redacted]
- [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

- [redacted]
- [redacted]
- [redacted]
- [redacted]

[redacted]

[redacted]

- [redacted]
- [redacted]

Network

The Team recommends one network initiative:

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

- [redacted]
- [redacted]
- [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

- [redacted]
- [redacted]
- [redacted]
- [redacted]

[redacted]

- [redacted]

[redacted]

- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]

[redacted]

[redacted]

[redacted]

Retail

The Team recommends two retail initiatives:

[redacted]

[redacted]

[redacted]

- [redacted]
- [redacted]

[redacted]

- [redacted]
- [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

- [redacted]
- [redacted]
- [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

- [redacted]
- [redacted]
- [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

- [redacted]

- [redacted]

- [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]

[redacted]

- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

- [redacted]
- [redacted]
- [redacted]
- [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

- [redacted]
- [redacted]
- [redacted]
- [redacted]

[redacted]

[redacted]

Collection and Delivery

The Team recommends two collection and delivery initiatives:

[redacted]

[redacted]

[redacted]

- [redacted]
- [redacted]

[redacted]

- [redacted]
- [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]			
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]

[redacted]

- [redacted]

[redacted]

- [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]			
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]			
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

- [redacted]
- [redacted]

[redacted]

- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]

[redacted]

[redacted]

[redacted]

Other Improvement Opportunities

During the review of USPS's operations, the Team used several criteria to identify areas for improvement that were researched, quantified, and vetted through USPS personnel as formal recommendations. The recommendations in this report represent savings opportunities which upon initial estimates represented $100 million or more in potential cost savings and which could be validated by USPS subject matter experts. In addition to the recommended cost savings initiatives outlined in Recommended Cost Savings Initiatives, the Team identified other opportunities for improvement that either did not meet the $100 million threshold or could not be accurately quantified given the constraints of data availability and time. These opportunities are categorized as Other Improvement Opportunities. Although these findings could represent additional savings for USPS towards, **any savings possible through these opportunities do not present the opportunity to materially alter USPS's financial condition in the next 10 years.** The table below summarizes Other Improvement Opportunities the Team identified:

Category	Opportunity	Description	Action(s)
[redacted]	[redacted]	[redacted]	[redacted]
	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
	[redacted]	[redacted]	[redacted]

	[redacted]	[redacted]	[redacted]
	[redacted]	[redacted]	

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

Site Visit Observations

As noted in previous sections, the Team's site visit observations were an important component of the operational assessment, as they provided insight that helped to drive our focus in developing the Recommended Cost Savings Initiatives and Other Improvement Opportunities identified earlier in this report.

The site visit observations documented in this section are across USPS operations from Originating Activities, through Mail Processing Activities, to Destinating (Delivery) Activities. Findings across USPS's operations are not mutually exclusive, and are noted in each process in which they were observed.

The observations from each operation were divided into three categories:

Best Practices
Throughout site visits, interviews, and discussions with field management and leadership (that constituted the Operational Assessment), the Team observed many local variations of different processes throughout processing facilities and delivery units. The Team also learned about successful efficiency efforts that were initiated in select areas of the field. Best Practices identified in this report document the observations that present opportunities for USPS to promulgate already-successful ideas and improve efficiency and effectiveness.

Opportunities for Improvement
In addition to identifying Best Practices, the Team identified potential opportunities for improvement of varying size and scope primarily based upon site observations and interviews. Many of the opportunities that represented significant nationwide savings were quantified as recommendations within this report. Savings opportunities that did not have significant nationwide implications (i.e. <$100 million annual savings possible through initial estimates) were included as Opportunities for Improvement. Opportunities did not receive the detailed analysis and level of validation that the Recommendations have.

Recommendations
The Team identified several opportunities for costs savings with significant nationwide savings potential (>$100 million in annual savings) which have been analyzed and documented within the Recommended Cost Savings Initiatives section of this report.

These findings are categorized by process area below:

Originating Activities

Best Practices

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

Conclusion

USPS is operating under challenging legal and regulatory constraints which severely limit its ability to become financially sustainable. Executing the recommendations of this report provides USPS an opportunity to build on existing initiatives, expediting / accelerating / modifying, where appropriate. However, even if USPS executes on these opportunities effectively and as quickly as practical, the combination of volume trends, and existing labor, regulatory, and legislative constraints will continue to keep its costs rising faster than its revenue. Accordingly, USPS will continue to experience net losses - and worsen its net cash position - during each year of the 10-year period from FY17 through FY26.

Operational improvements alone are not sufficient to allow USPS to close its expected net cash shortfall over the next 10 years, and achieve financial stability. In order for USPS to eliminate its net cash shortfall position by the end of FY26 as well as achieve financial stability through a reduction in its debt position and an increase in its levels of operating cash on hand, USPS, the PRC and Congress need to collaborate to alter some of USPS's constraints and/or re-consider the currently-prevailing rate structure for market-dominant products.